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C O N F I D E N T I A L JERUSALEM 004427

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NEA FOR FRONT OFFICE; NEA/IPA FOR
WILLIAMS/SHAMPAINE/STEINGER; NSC FOR ABRAMS/DORAN/WATERS;
TREASURY FOR SZUBIN/LOEFFLER/NUGENT/HIRSON

E.O. 12958: DECL: 10/06/2016
TAGS: ENRG PGOV ECON ETRD KCOR KWBG IS
SUBJECT: PA DECISION TO BREAK TIES WITH ISRAELI FUEL
SUPPLIER PROMPTS SUPPLY CUT AND FATAH COMPLAINTS

REF: JERUSALEM 1884

Classified By: Consul General Jake Walles, Reasons 1.4 (b) and (d).

¶1. (SBU) Summary: In late September 2006, the PA's Ministry of Finance advised its long-time petroleum product supplier, the Israeli company Dor Alon, that the PA will not renew its contract with the company after its December 31, 2006 termination date. The PA Acting Minister of Finance announced publicly October 5 that his ministry had signed a new agreement with another Israeli supplier, PAZ. Since the PA failed to make full payment of invoices due September 30, Dor suspended shipments October 1, resulting in serious shortages of petroleum products in several Palestinian cities, but then resumed shipments October 5. The Fatah-aligned head of the PA General Petroleum Corporation complained publicly that he was not consulted about the change in petroleum suppliers. End summary.

PA Strikes New Fuel Deal

¶2. (SBU) The Acting Minister of Finance and Minister of Planning in the Hamas-led government Samir Abu Isheh notified the Dor Alon company in a September 28 letter that the PA would not renew its contract with the company after it expires at the end of the year, according to press reports. (Note: Dor has been the sole supplier of petroleum products to the West Bank and Gaza since 1994.) Abu Isheh announced publicly October 5 that his ministry had signed a new contract with the Israeli petroleum company PAZ. Abu Isheh asserted that the PAZ contract would save the PA NIS 75 million (USD 23 million) a year and also allow the PA to purchase crude oil from foreign sources for processing at PAZ's refinery. Abu Isheh also said that the PA had paid only NIS 90 million of the NIS 142 million due to be paid to Dor by September 30. He added that the PA owes Dor a total of NIS 350 million.

Fuel Shipments Cut

¶3. (SBU) Dor suspended petroleum shipments to the West Bank and Gaza October 1, according to press reports. In conversations with Econoff and Econspecialist October 5, gasoline retailers attributed the cutoff to both Dor's anger over the PA decision as well as its desire to secure payment of still outstanding invoices prior to the termination of the

supply contract. (Note: Dor has previously suspended fuel shipments due to nonpayment of invoices (reftel). According to press accounts, Dor derives as much as 40 percent of its revenue from sales to the PA. End note.) Palestinians reacted to the news by rushing out to purchase as much diesel, gasoline and LPG as possible, thus quickly exacerbating the situation. Several gas stations in Bethlehem and Ramallah closed October 4 for lack of fuel. Petroleum products, however, remained available in some areas through black market sales, according to one retailer/distributor.

Flow Resumes as Competition Looms

¶4. (SBU) Dor resumed shipments on October 5. Palestinian petroleum retailers suggested to Econoff that Dor may have reversed itself out of concern about immediately losing business to PAZ. They explained that PAZ had not only expressed interest in filling the void left by Dor's stoppage, but had actually sent truckloads of petroleum products to West Bank crossings. The Palestinian General Petroleum Corporation (GPC), however, refused to allow PAZ products to be enter and be distributed, according to petroleum retailers.

Another Venue for Fatah-Hamas clashes

¶5. (SBU) GPC Director General Hosam Abu Al-Rob (Fatah) complained on Palestine Radio October 4 that the GPC had not been involved in the decision not to renew Dor's contract. He said that the Ministry of Finance had not coordinated with

the GPC on the matter nor had it informed the GPC directly of its decision. The Fatah-affiliated Union of Public Employees issued a statement October 3 holding the government for the fuel shortages because of its decision to change suppliers.

¶6. (C) Suhail Jabr, a Ramallah gasoline retailer and diesel distributor, suggested to Econoff October 5 that Abu Isheh's move to sever ties with Dor and the GPC's subsequent refusal to allow PAZ shipments into the West Bank amounted to yet another chapter in the conflict between Hamas and Fatah. Jabr and fellow fuel dealer Mohammed Abu Al-Hassan reported that they had declined PAZ offers for immediate deliveries of fuel during the Dor cut-off out of fear of getting caught up in the Hamas-Fatah feud. Jabr claimed that efforts are underway to transfer authority over the GPC from the Ministry of Finance to the President's Office as a means of blocking the PAZ deal. Both dealers characterized the contract with PAZ as a positive development, particularly given allegations of corruption against some of the beneficiaries of the current system.

President's Office Staying Out

¶7. (C) Muhammad Mustafa, Economic Adviser to President Abbas, told EconChief October 5 that Acting Finance Minster Abu Isheh had advised him on September 24 that his ministry was considering changing petroleum suppliers. Abu Isheh added that, since the existing contract with Dor required three months notice of non-renewal, the PA would have to make a decision by September 30. Mustafa said that he complained to Abu Isheh of the short notice, but volunteered to engaged four consultants to examine the Dor and PAZ contracts. Based on this review, Mustafa sent a letter to Abu Isheh -- subsequently leaked to the press -- raising a number of concerns but not stating a Presidency position on the matter. Nevertheless, Abu Isheh went ahead and signed the contract with PAZ without going back to the Presidency or the GPC.

¶8. (C) Mustafa advised that the PA owed Dor a NIS 130 million payment by September 30, but the Ministry of Finance

paid only NIS 70 million of this amount, so Dor suspended shipments. Mustafa said that, in a goodwill gesture, the president of Dor later called Abu Mazen from the U.S. and expressed his company's interest in maintaining a positive relationship with the PA. Mustafa suggested that Dor, likely aware of PA Presidency interest in privatizing the petroleum procurement and distribution network, has concluded that it needs to preserve its ties to the PA if it hopes to re-enter the market once privatization allows for multiple suppliers.

WALLES